

Historic, Archive Document

Do not assume content reflects current scientific knowledge, policies, or practices.

Ag 84 Pro
Cap 4
(Rer)



A TELEPHONE

FOR YOUR FARM

ANSWERS TO QUESTIONS
ABOUT THE RURAL
TELEPHONE LOAN PROGRAM

U. S. DEPARTMENT OF AGRICULTURE
RURAL ELECTRIFICATION ADMINISTRATION

Issued May 1950
Slightly revised July 1952
PA-88

CONTENTS

	Page
HOW THE TELEPHONE LOAN PROGRAM WORKS	
What To Do First.....	6
Role of Electric Co-ops.....	7
What Existing Mutuals Can Do.....	8
Loan Requirements.....	9
Forming a New Co-op.....	10
Size of Group Needed.....	11
A FEW FACTS ABOUT TELEPHONE SERVICE	
Number of Parties to Line.....	12
Cost of Telephone Service.....	12
Use of Power Lines and Poles.....	13
How a Telephone Co-op Operates.....	14
Effect of Nonprofit Operation.....	16

A TELEPHONE FOR YOUR FARM

This leaflet is for farmers and other rural people who want adequate telephone service. It tells about the REA rural telephone loan program and what rural people themselves can do to benefit from this program.

The rural telephone loan program was enacted into law in October 1949 under an amendment to the Rural Electrification Act of 1936. The Rural Electrification Administration, which since 1935 has been making loans to finance rural electric systems, will also handle the telephone loan program. REA is a part of the U. S. Department of Agriculture.

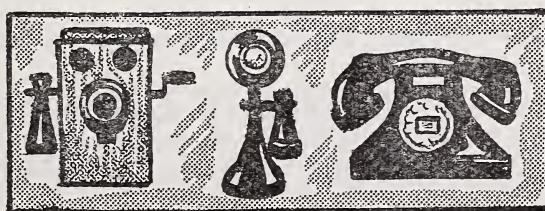
There are three basic features in the program that are of particular interest to rural people desiring adequate telephone service:

First, it is a loan program. REA itself will not go into the telephone business and will not build or operate any telephone systems. Its function is to make self-liquidating loans for the purpose of financing the extension and improvement of telephone service in rural areas to those who furnish or propose to furnish such service. In other words, what is accomplished will have to be done by the local people. REA will merely provide loans and technical assistance similar to that which has been provided for rural electrification since 1935.

Second, the program's objective is area coverage. In the law itself, the Congress said that “* * * it is hereby declared to be the policy of the Congress that adequate telephone service be made generally available in rural areas * * * to the widest practicable number of rural users of such service.” This means that anyone applying for a loan will need to show that the funds will be used to promote the area coverage objective established by the Congress.

Third, the program provides both for extending good telephone service to those who have no service at all and for improving the service of those who now may have unsatisfactory telephone communication.

On the following pages are answers to questions rural people have asked as to how they may make use of the rural telephone loan program.



HOW THE TELEPHONE LOAN PROGRAM WORKS

Q. I live in the country and don't have a telephone. How can this program help me to get one?

A. By furnishing low-cost, long-term loans to whatever company can qualify and will agree to serve you. These loans will be made to finance the extension or improvement of telephone service in rural areas. They are available "to persons now providing or who may hereafter provide telephone service in rural areas and to cooperative, nonprofit, limited dividend, or mutual associations." Loans will not be made to individual telephone subscribers.

Q. How will such a loan help me?

A. An important item in providing telephone service is the need for capital. In a great many instances, capital is very difficult to obtain and when it is obtainable from the usual commercial sources the cost is high. The low interest rates and the long repayment period provided by the REA program reduce this cost. That reduction may make service possible to your farm on a sound business basis. Moreover, the law specifies that the loans are to be made so they will result in providing adequate service to the widest practicable number of rural subscribers.

The program, therefore, may help you get a telephone in one of two ways: (1) An existing telephone organization, whether it is a commercial company, a mutual or a co-op telephone association, may be able, as a result of favorable REA loan terms, to extend service to you and your neighbors, or (2) a new co-op association organized by you and your neighbors may obtain a loan for the purpose of providing telephone service in your area on a non-profit basis.

Q. How about my neighbor who has a telephone but is getting poor service?

A. The program may help him in much the same way as it will those who don't have service at all. Improvement of rural telephone service is one of the purposes for which loans may be made.

What To Do First

Q. What should I do first to get a telephone?

A. Get in touch with the nearest existing telephone system. Find out whether the company can and is willing to serve you and under what conditions. By going to the company in groups you will emphasize the demand for telephone service in the community. If you and all of your neighbors get assurance of adequate service under reasonable conditions, there will be no need of bothering with other plans.

Q. What if the company says it has no money to finance the cost of building lines to us?

A. Call attention to the REA telephone loan program and urge the company to write REA for an application blank and full information about the program. The address is Rural Electrification Administration, Washington 25, D. C.



Q. What can be done if, after doing all this, we find that no nearby telephone company is willing to give us adequate telephone service under reasonable conditions or if the local company will serve me but not my neighbors farther from town?

A. A new telephone organization in the area may be necessary. If you and enough of your neighbors are really interested in getting telephones, or improving your service, it will be up to you to get such an organization started.

Q. Could we form a co-op to get telephones just like we did to get electric service?

A. Yes, in about the same way. You start off by choosing a small committee from the neighborhood to look into the possibility of organizing a new telephone co-op like your electric co-op.

Q. In forming a new organization should we organize as a cooperative or as an ordinary profit corporation?

A. Under the rural telephone law, preference is given to existing suppliers of rural telephone service and to cooperatives, mutuals, and limited dividend associations. Therefore, to qualify for preference under the law, a *new* organization must be a cooperative or mutual organization. This means that your chances of an REA loan to provide telephone service to you and your neighbors who want it are better if you organize a cooperative, rather than a commercial telephone company.

Role of Electric Co-ops

Q. There is an REA-financed electric co-op in my neighborhood. Why can't it provide telephone service too?

A. In most cases, State laws and the co-op's charter provisions would prevent it. Besides, since the electric and the telephone service areas are never likely to be quite the same, electric consumers and the telephone subscribers

would be two different groups. Separate organizations, therefore, would be the most satisfactory way to protect the interests of the two groups and to account for the funds used for each service. However, electric co-ops in many communities will undoubtedly be active in helping their members to get telephone service.

What Existing Mutuals Can Do

Q. Can an existing farmer-owned mutual line that is switched through a commercial company in town apply for an REA loan to improve or expand its service?

A. Any existing telephone company, whether commercial or mutual, may apply. However, such a telephone mutual or cooperative is frequently too small to support adequately a modern telephone system even with the aid of low-cost government financing. Also, it is generally not economically feasible to make loans for organizations consisting entirely of switcher lines and owning no central office facilities. Such a company is entirely dependent on the switching company in matters of rates, quality of service, and technical changes. Moreover, it has been general practice in the industry to deny a switcher company any share in the toll revenue from long distance calls its subscribers originate. This puts a switcher line at a serious financial disadvantage.

Q. We have several farmer-owned mutual lines near us. Can they get together to expand and improve service throughout their area and fill in the gaps?

A. Yes, indeed. That might be the best way for them to help themselves as well as their unserved neighbors. Under the law, loans may not be made for the purpose of merely effecting a consolidation of telephone organizations, but a telephone system to be developed through merger or consolidation may obtain loans for the improvement and extension of rural telephone service in combined areas.

Q. But what advantage is there to the farmer who already has a telephone in such a consolidation of lines?

A. First, a larger organization can usually afford better management, operation, and maintenance, and give better service. Second, each subscriber on a big system has many more people he can call without extra toll. Third,



each section is assured of capital for modernizing lines and equipment. Fourth, the whole community will be better off, which means that each individual who lives there will get some direct or indirect benefit.

Q. How can a group of small telephone co-ops or farmer-owned lines go about applying for an REA loan?

A. The manager or secretary of one of them, or the secretary or chairman of a committee set up by them, should write for a copy of REA's "Preloan Procedure for Rural Telephone Cooperatives." This publication gives a detailed explanation of how a new group or a group of existing small co-ops or individuals can plan for qualifying for an REA loan. The same publication also explains how farmers without telephones can get together to form a new telephone co-op.

Loan Requirements

Q. What does a company or co-op have to do to qualify for an REA loan?

A. Two requirements that are of prime importance at the outset are that the borrower be in a position to (a) provide area coverage and (b) put up a sufficient amount of equity to safeguard the loan.

Q. What do you mean by "equity"?

A. That some local investment in the telephone system will have to be provided. In general, REA will lend only 50 to 90 percent of the appraised value of the security offered including the facilities financed by the loan.

Q. Does this mean that members of a new co-op may have to put up money?

A. Yes. Since the proposed cooperative will usually start with no property or assets, it will be necessary for prospective members to furnish some equity capital. This may be obtained through membership fees or stock subscriptions or in some other acceptable way.

Q. How much will each of us have to put up?

A. That depends. The amount will vary with the size, character, and cost of the telephone system needed and cannot be determined definitely until the new system has been designed. But you had better figure on \$25 to \$50 per subscriber.

Q. But if it costs us only \$5 to join our electric co-op, why the difference?

A. There is a much greater risk of discontinuance of telephone service than there is of electrical service. A large number of disconnections would mean higher costs to those remaining and even a hazard to the loan security. You had to wire your farm and buy electrical appliances before you could use electricity—an expense you do not have in getting telephone service. Then, you converted your farm operations largely to electric power and thus gave your electric co-op assurance you would continue to take service. In addition, your electric co-op can count on a steadily increasing revenue per patron to assure increasing financial stability. The situation is different with a telephone co-op, which has to rely largely on a fixed amount of revenue per subscriber per month. Local investment will help make up for some of the differences between the two types of service, and make the co-op a financial success. That means better security for the Government loan and better assurance to the local people of continued, adequate telephone service.



Q. Will we have to pay in the entire amount of equity before our co-op can apply for a telephone loan?

A. Not necessarily. However, to evidence his genuine interest in securing service, the prospective subscriber should pay at least \$10 of the membership fee or stock subscription upon signing the application and agree to pay the balance at a later date.

Forming a New Co-op

Q. How do we go about forming a new telephone co-op?

A. The first step could well be the organization of a telephone co-op committee in your community to explore your local telephone situation, find out what your neighbors are willing to do and determine in a preliminary way what sort of telephone system would be required to serve the area.

Q. Will REA come in and organize a telephone system for us?

A. No. It will be up to you and your neighbors to take the initiative if you want to get telephone service. However, information is available on request from REA on what steps to take preparatory to making a loan application. Write to the Rural Electrification Administration, U. S. Department of Agriculture, Washington 25, D. C.

Q. Where else can we get help?

A. From your county extension agent, the nearest REA-financed electric co-op, offices of local farm and cooperative organizations, and other rural civic leaders. During this preliminary stage, it will be unnecessary to hire anyone to provide financial, legal, or engineering services, although such services may be needed later.

Q. How long a period is allowed to repay the loan?

A. Up to 35 years, depending on the circumstances of each individual case. Interest will be 2 percent.

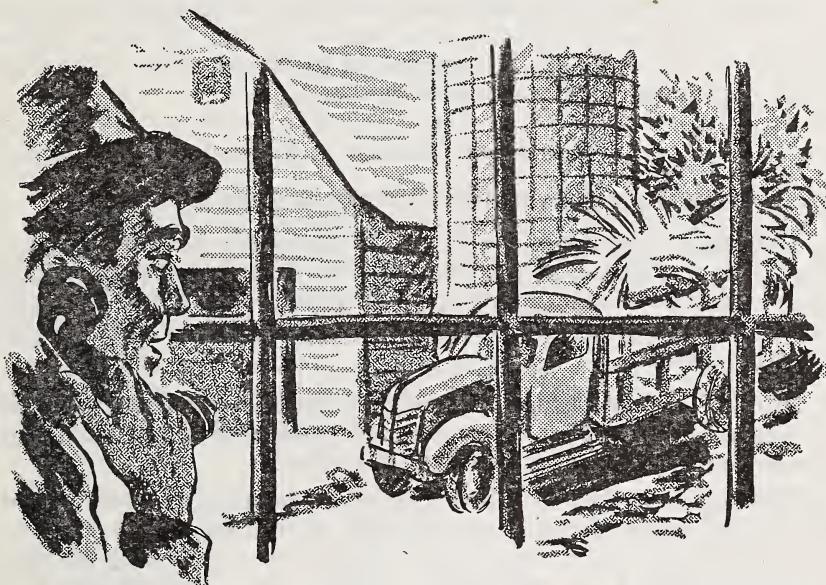
Size of Group Needed

Q. How large a group would we have to have to qualify for a loan?

A. Unless there are at least several hundred prospective subscribers, the chances of developing a telephone system which will give satisfactory service at low cost is not very good. There is no absolute minimum, but the group should be large enough to make it possible to employ competent management and maintenance personnel. It might be necessary to combine several neighborhoods of unserved people into one group.

Q. How soon can a new group get a loan?

A. Existing telephone companies, if they apply for loans, have priority during the first year of the program. But a loan may be made to a new organization at any time if: (1) No existing company serving rural areas has made application to serve substantially the same subscribers; or (2) a loan application from an existing company in the area has been considered and turned down.



A FEW FACTS ABOUT TELEPHONE SERVICE

Q. What type of telephone service can farmers get through the REA program?

A. You can probably have either common battery, in which you pick up the phone and the operator answers, or dial service. It depends on what you are willing to pay and on certain other factors, such as the type of central-office equipment on which your line would depend for service. The most economical type of service, considering first cost, operation, and maintenance, can only be determined when the ultimate telephone system can be designed for the area. REA will probably not make loans for magneto service using the old style crank-type phones.



Q. Is it likely that I will be able to get a private line all to myself?

A. Perhaps, although the cost would be high. A separate pair of wires has to be run from switchboard to serve just your farm. However, it should be possible to reduce greatly the number of parties on a line if the farmers want this improvement badly enough to pay for it.

Number of Parties to Line

Q. How many parties would we have to have on a line?

A. That again depends on how much the people in your community are willing to pay for improved telephone service. An arrangement now being made on some rural systems has up to 10 parties on a line. Through the use of a technique called selective ringing, the only phone that rings is that of the party called.

Q. We had a good telephone service until we got rural electrification in our community. Now our telephone lines are so noisy we can't use them. What can we do about that?

A. You may have what is called a grounded telephone system. There is only one wire, and the ground serves as the other electrical conductor. No economical way has been devised for getting away from inductive interference with electrical lines with such a system. The only real remedy is to metalicize your lines—that is, install pairs of wires rather than single wires. If the system is already metallic, studies may have to be made to see what is causing the difficulty. Some fault which can be corrected exists when a metallic line is noisy.

Cost of Telephone Service

Q. What will good telephone service for my farm cost?

A. That's hard to answer in general terms. It will depend on what kind of telephones you want, the size and density of the system, how you finance your local equity, and many other factors. Farmers all over the country have learned that it is not good to pay so little for service that the telephone company has no money for management and maintenance. That provides cheap service for a while, but when the facilities deteriorate there is no

money to replace them, and then there is poor telephone service. That situation apparently is largely responsible for the great decline in the number of farms with telephones from about 1920 until the mid-1940's. Low-cost financing through REA should help in expanding and improving rural telephone service without undue rate increases, but farm people can probably expect to pay about the same rates for telephone service as the urban people in their area, provided they get service of the same quality. After all, farm people have many more uses for a telephone than do urban people. For the farm family, a telephone cuts down on the danger from fire, illness, and accident; saves the cost of lengthy business trips; helps in marketing farm crops; and brings neighbors closer together.

Q. Will I be able to make long-distance calls from my telephone?

A. Yes, if the company which will serve you is able to arrange a connection with the Bell system for toll service. As a matter of fact, long-distance calls provide the operator of a local telephone system with an additional and important source of revenue. So farmers who own their own telephone lines can help the financial condition of their system by learning the many ways in which they can use long-distance service to advantage in their farming business.

Use of Power Lines and Poles

Q. Will we be able to use the power lines of the electric co-op in our area for telephones?

A. Maybe. Technically, it is possible. Here again, local conditions will be the deciding factor. A telephone system can use the facilities of an electric system either by stringing two sets of wires on the same pole or by carrying speech on the power conductor. Joint use of poles seems to offer prospects of construction and operating economies. The equipment for talking over the power lines is at present rather costly, and prices will have to come down a lot before this method will have much value for farmers, except perhaps in an extremely isolated area where there is no other way they can get telephone service.





Q. How do we find out about using the power lines or poles?

A. Talk with the officials of the electric co-op or power company in your community. The decision as to whether or not to enter into such an agreement depends on their wishes and on the practicability of joint use from an economic and engineering standpoint. REA has developed a standard form of contract which it will approve for any of the electric co-ops desiring to enter into joint use arrangements with a telephone organization. If REA's material on this subject has not come to the attention of the electric co-op officials, they can get information by writing REA.

Q. How about radio telephone service for farmers?

A. This is another promising new method, although it is still in the relatively early stages of development. Because of the expense the chances are that for some time it will only be suited to isolated areas where pole-line construction is difficult and costly.

How a Telephone Co-op Operates

Q. If we decide to form a co-op, who will own and control it?

A. A co-op is an incorporated, locally owned, private, nonprofit enterprise. The people who use its services and are its members own and control it. Each member has only one vote. This gives all members an equal share in its control. By their vote members direct co-op policies. They have the right and duty to elect directors from the membership who are capable and public-spirited. These directors are responsible to the members for the overall management of the co-op. They delegate the day-by-day management job to a paid manager.

Q. Is this a practical way to run a business?

A. It has been a practical and successful way for farmers to do business in a number of fields for a good many years. U. S. Department of Agriculture records show that of the American farmer co-ops doing business today,

1,600 have been in business more than 30 years, many of them more than half a century. Millions of Americans belong to co-ops as a means of satisfying a variety of needs.

Q. Can we hope to make a success of running a telephone system, when so many companies have stayed out of rural areas presumably because there was no money to be made there?

A. Many people asked the same question about electric co-ops when REA started in 1935. But today more than 900 electric co-ops, serving over 3,000,000 rural establishments, are being run successfully by the rural people who organized them and own them. This record is particularly outstanding considering: First, that electric co-ops are obliged to repay 100 percent of their initial capital, whereas practically no other commercial utility is obligated to amortize its investment, and second, that they are doing this in territories in which commercial utilities have not been willing to risk investment because of low financial returns.

In a telephone co-op, there are several factors in your favor. One is that in a business where the patrons are also the owners, everyone has a personal interest in making the business a success by, for example, keeping operating costs low. Another is that a co-op operates on a service-at-cost basis. A third reason is that REA borrowers will have advantages, through participating in the REA telephone loan program, of low-cost, long-term financing and of technical and management information accumulated from combined experience of similar enterprises.

Q. Can a co-op enterprise fail?

A. There are co-op successes and co-op failures. On the whole, the record is good. Any co-op which is well managed and whose members keep informed and take an active interest in its affairs need have no fear of failure. A co-op enterprise must be managed economically and efficiently just like any other business. Its success depends also on an informed and active membership.

Q. What money risks do I run by joining?

A. None, except for the amount you obligate yourself to pay as a membership fee or in some other form as your share of your initial capital. Your



co-op will be incorporated under the laws of your State. As a member of a co-op corporation you will have no personal liabilities for any debts or obligations of the co-op.

Effect of Nonprofit Operation

Q. What effect will co-op operation have on my cost of service?

A. That depends upon how efficiently the co-op operates. Your monthly telephone rates will be no higher than necessary to meet the expense of operating and maintaining a satisfactory system and repay the REA loan. If the co-op books show a net margin at the end of the year, that amount is considered an overpayment by the patrons and belongs to them, not to the co-op. In case of the co-ops financed by REA, this overpayment is not returned to the patron immediately because the co-op needs the amounts to pay off its loan to REA. Thus, as the loan is being repaid, the patrons are getting larger individual equities in the ownership of the co-op system. Eventually they will have it free of debt, merely by paying for service at the usual rates.

Q. Are co-ops exempt from taxes?

A. No. Co-ops pay property taxes and a variety of other Federal, State, and local taxes, just as other businesses do. The exact situation regarding amounts and kinds of taxes paid by co-ops varies from State to State. Co-ops which exist primarily to serve their members at cost are not subject to Federal income tax because receipts beyond the cost of doing business represents savings to the patrons and not a profit or income to the co-op. It is impossible to assess a profit tax, such as an income tax, against an organization which has no profit, whether it is a co-op or a commercial corporation.

Q. Once we get started, will REA help us run the business?

A. Unless REA is convinced you can operate your business successfully, it will not make you a loan in the first place. As in the case of any financing institution making a substantial loan, REA expects to keep track of your progress and to provide the amount of consultation and advisory service necessary to protect the Government's security and to achieve the objectives for which the loan was made.